

Report Card



ND TEACHERS' FUND FOR RETIREMENT

JANUARY 2007

TFFR Board Updates Goals

Each year, the TFFR Board conducts a review of the Board's mission, goals, policies, and monitoring reports. This review assists them in managing and evaluating your TFFR retirement program. As part of the 2006 review, TFFR trustees modified Board goals to better reflect what they are trying to achieve in the areas of funding, investments, benefits, and services.

TFFR Mission

The mission of TFFR, a trust fund, is to advocate for, develop, and administer a comprehensive retirement program for all trust fund members within the resources available.

TFFR Investment and Funding Goals:

- Prudently invest assets in a well diversified portfolio to optimize long term returns while controlling risk to the fund.
- Accumulate sufficient funds to pay all current and future benefit

and expense obligations when due.

- Improve and maintain adequate funding of all promised benefits to ensure the financial integrity of the system.
- Build a funding cushion to provide for future benefit improvements.

TFFR Benefit Goals:

- Provide 2.0% benefit formula for all current and future retirees.
- Provide ad hoc retiree benefit adjustments (fixed formula and percent based) for all current and future retirees to maintain purchasing power of retirement benefits and assist with rising health

care costs. Benefit adjustments may be considered when the Board believes it is prudent based upon actuarial funding measurements including:

1. Positive contribution margin,
2. Amortization of UAAL within GASB 30-year funding period,
3. Funded ratio of 90% or greater.

TFFR Service Goals:

- Administer accurate, prompt, and efficient pension benefits program.
- Deliver high quality, friendly service to members and employers.
- Provide educational outreach programs including pre-retirement seminars and individual benefits counseling sessions.

2007 Legislation Proposed

Senate Bill No. 2046, submitted by the TFFR Board, includes contribution and benefit changes, which along with positive investment returns, should improve TFFR's funding level without impairing legally protected contractual pension benefits for current active, inactive, and retired teachers and administrators. This proposal was given a favorable recommendation by the interim Legislative Employee Benefits Programs Committee. Details of the proposal are explained below and are available on the TFFR website at www.nd.gov/rio.

SB2046:

- **Increases employer retirement contributions beginning July 1, 2007.**
 - Employer contributions would be 8.75% of active member's salary, instead of 7.75%.
 - Employer contributions of 16.50% of reemployed retiree's salary would be required under the general rule and critical shortage options. Employer contributions would be reduced to 8.75% when retiree exceeds the annual hour limit under the general rule and member contributions become due.

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TFFR Board of Trustees

Mark Sanford, *President*

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Lowell Latimer Clarence Corneil
Kelly Schmidt Wayne Sanstead

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Steve Cochrane, *Executive Director/CIO*
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Articles are for general information only and are not intended to provide specific advice or recommendation. Other forms of this newsletter are available on request.

Memo to Members

TFFR Goes On...

"In three words I can sum up everything I've learned about life: it goes on."

--Robert Frost, U.S. poet, 1874-1963

Like life, your TFFR retirement plan also "goes on." Beginning with your first day of teaching through the end of your retirement, your TFFR plan is there for you. As a defined benefit pension plan, TFFR will provide lifetime retirement, disability, and survivor benefits to you and every past, present, and future ND public school teacher and administrator. So how does TFFR manage such a big load in an ever-changing environment?

First and foremost, the TFFR Board sets goals relating to funding, investments, benefits, and services. The Board continually monitors progress toward those goals utilizing annual actuarial, financial, investment, statistical, and membership reports, to name just a few. (See related articles on pages one and five.)



Fay Kopp
Deputy Executive Director

Benefit funding can be challenging when investment performance does not meet actuarial assumptions, and/or when pension liabilities increase because of benefit improvements, members retiring earlier, living longer, higher salaries, declining number of active teachers, and other such factors.

In the past few years, we have seen funding levels decline – in North Dakota, and around the country. As a result, the TFFR Board has developed a comprehensive plan designed to reduce liabilities and increase assets. This plan is contained in the TFFR legislative proposal. (See related article on page one.)

The TFFR proposal is focused on ensuring that future generations of teachers inherit a strong and financially secure retirement system – just like the one current active and retired teachers have come to know and trust. Because TFFR is a defined benefit pension plan, "it goes on" as long as you do!

Please support the legislative changes included in the TFFR proposal to improve and maintain the overall financial health of your retirement plan. Bill drafts and legislative reports will be available on the TFFR website at www.nd.gov/rio. As always, you can visit with me by calling the office at 1-800-952-2970 or sending an email to fkopp@nd.gov.



The TFFR Board is committed to ensuring the financial stability of your retirement fund.

TFFR Board members
- Front row, from left: Clarence Corneil, retired trustee; Mark Sanford, Board President; Lowell Latimer, retired trustee. Back row: Mike Gessner, Vice President; Kelly Schmidt, State Treasurer; Kim Franz, active trustee; Wayne Sanstead, State Superintendent.

HUH????????

After working in the retirement area for several years, one can take for granted that all the retirement jargon and terms used on a daily basis is also understood by our members. The following is a list of common terms described in plain, simple, English. So the next time you hear one of these terms, you can say "Aahaah," instead of, "Huh?!"

Air Time – A type of service credit that can be purchased by an active teacher with at least five years of earned TFFR service on file. Air time is simply additional credit that, if purchased, will be added to existing service credit for use in determining retirement eligibility (Rule of 85) and calculating benefits.

DB Plan – Defined Benefit Pension Plan – A pension plan with lifetime retirement benefits calculated based on a formula (Average Salary x Years of Service x Multiplier). Benefits are not based on accumulated dollars in your retirement account.

DC Plan – Defined Contribution Plan – A pension plan with retirement benefits based on accumulated dollars.

Dual Member – A member of TFFR that also has service with the ND Public Employees Retirement System (PERS.)

Early Retirement – Reduced retirement benefit payable as early

as age 55 with a minimum of three years of service.

Normal Retirement – Non-reduced retirement benefit payable at the Rule of 85 or age 65 with a minimum of three years of service.

QDRO – Qualified Domestic Relations Order – A court order that complies with TFFR's legal requirements relating to the payment of TFFR benefits to an ex-spouse.

Rule of 85 – When age plus service credit equals or exceeds 85, a member is eligible for non-reduced retirement benefits.

1st Annual Statewide Pre-Retirement Seminar

Ask and you shall receive. We are happy to offer to every teacher, all over the state, an opportunity to attend a pre-retirement seminar this summer. The full day seminar covers TFFR benefits, financial planning, estate planning, Social Security benefits, PERS health insurance, and adjusting to retirement.

The seminar will be held at the ND Heritage Center on Tuesday, July 17, 2007, from 8- 4:30. To register, call 1-800-952-2970 or 328-9886 or complete and return the attached registration form.

STATEWIDE PRE-RETIREMENT SEMINAR REGISTRATION FORM

July 17, 2007 - Bismarck

Name _____

Address _____

City _____ State _____ Zip code _____ SSN _____

Home Telephone _____ Work Telephone _____ E-mail _____

Will your spouse/guest also be attending? _____ Yes _____ No

Name of spouse/guest _____

If your spouse/guest is also a teacher, please provide his/her SSN _____

Return to: ND Retirement and Investment Office

PO Box 7100, Bismarck, ND 58507-7100; or e-mail information to: rio@nd.gov

2006 ANNUAL REPORT SUMMARY

2006 Annual Report

Every year, NDRIO publishes its annual Comprehensive Annual Financial Report (CAFR). This report provides a detailed look at investment, financial, actuarial, and statistical information. The report continues to receive the Certificate of Achievement for Excellence in Financial Reporting. Included in this newsletter are a number of charts and graphs from this year's CAFR which covers July 1, 2005 – June 30, 2006. The complete report is posted on the NDRIO website at www.nd.gov/rio. In addition, copies of the report may be requested by calling the administrative office.

STATEMENT OF ASSETS AS OF JUNE 30, 2006

ASSETS

Equities	\$1,031,762,012
Fixed Income	396,725,853
Real Estate	182,884,803
Private Equity	69,410,721
Invested Cash	15,969,730
Invested Securities Lending	127,302,330
Receivables	16,333,536
Other Assets	9,654,014
Total Assets	\$1,850,042,999

LIABILITIES

Accounts Payable	\$2,041,720
Accrued Expenses	316,761
Securities Lending	127,302,330
Other Liabilities	57,240
Total Liabilities	129,718,051
Net Assets on June 30, 2006	\$1,720,324,948

CHANGES IN ASSETS DURING FISCAL YEAR 2006

CASH POSITION

Net Assets on June 30, 2005	\$1,530,194,427
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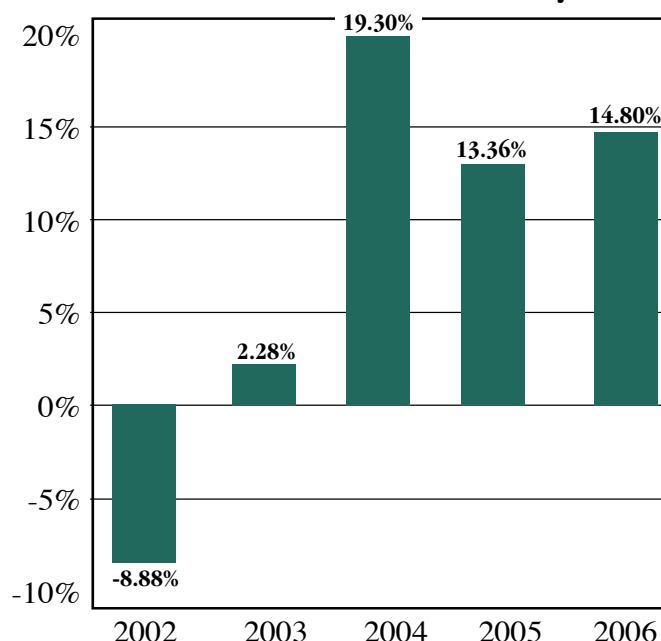
ADDITIONS

Member Contributions	\$31,171,156
Employer Contributions	31,170,851
Other Additions	3,235,821
Investment Income	220,552,684
Total Additions	\$286,130,512

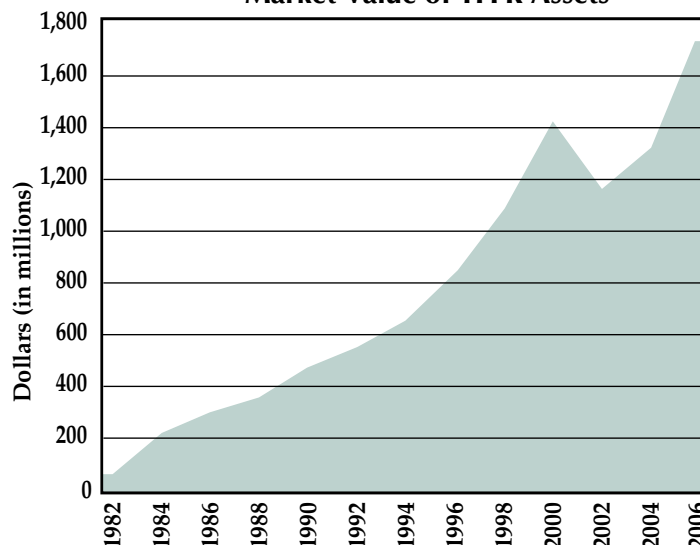
DEDUCTIONS

Benefits Paid	\$91,818,092
Refunds	2,697,308
Administrative Expenses	1,484,591
Total Deductions	\$95,999,991
Net Increase	190,130,521
Net Assets on June 30, 2006	\$1,720,324,948

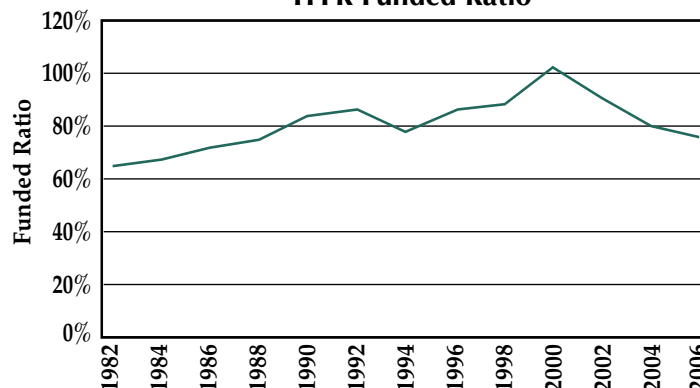
TFFR Investment Performance Summary



Market Value of TFFR Assets



TFFR Funded Ratio



2006 Actuarial Valuation Results

On an annual basis, TFFR's actuary, Gabriel, Roeder, Smith & Company (GRS) performs an actuarial valuation. An actuarial valuation is a mathematical means of determining if the contributions paid by members and employers, along with investment earnings, are adequate to pay the retirement benefits for current and future retirees. The annual valuation tracks changes over time and warns of possible future problems and issues. The 2006 report provides the following information:

Membership

As of July 1, 2006, the TFFR plan represented 17,030 active, inactive, and retired members. The average age of the 9,585 active members was 44.8 years; average service was 14.6 years; and average annual salary was \$40,703. There were 5,893 retirees and beneficiaries receiving average annual benefits of \$16,595. There were also 1,409 inactive, vested members and 143 inactive, nonvested members.

While active membership is slowly declining, the number of retired members has grown an average of 2.7% per year over the last 10 years. Currently, there are 1.6 active members for each retiree (down from 2.2 ten years ago), and the ratio of active to retired members continues to decrease.

Actuarial Results

According to the 2006 actuarial report, TFFR's unfunded actuarial accrued liability (UAAL) increased from \$495 million to \$510 million. The GASB Annual Required Contribution (ARC) rate increased from 12.12% to 12.29%. This is greater than the 7.75% employer contribution rate currently required by law. The shortfall (negative margin) between the rate mandated by law and the rate necessary to fund the UAAL in 30 years is -4.54%. The funding period remains infinite.

The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) is 75.4% as of July 1, 2006, an increase from 74.8% last year. Based on market values rather than actuarial values of assets, the funded ratio improved to 83.0%, up from 77.9% last year.

Details of the July 1, 2006 actuarial valuation report are included in the NDRIO 2006 Comprehensive Annual Financial Report (CAFR) which is available on the NDRIO website or by request from the administrative office.

Future Projections

Assuming TFFR earns 8% annual market returns for all future years and there is a 0.5% annual decrease in active membership, TFFR's actuary

has projected the impact on TFFR's funding level.

Short term projections show:

- Increasing funded ratios
- Decreasing UAAL
- Decreasing negative margin

But long-term projections show a slow decline:

- Decreasing funded ratios
- Increasing UAAL
- Increasing negative margin

TFFR Board

The TFFR Board and actuarial consultant are continuing to closely monitor TFFR's investment performance and funding situation. The Board is proposing legislation to improve TFFR's long-term funding level. (See related article on page one).

Actuarial Audit Conducted

Public pension plans commonly use actuarial audits as one of their due diligence tools. In simple terms, an actuarial audit is the review of one actuary's work by another actuary to ensure that the actuarial valuations are performed correctly and that the methods and assumptions used are reasonable. An actuarial audit provides a level of assurance that the financial condition of the plan is being accurately reported.

The TFFR Board selected Buck Consultants (Buck) to conduct an actuarial audit of TFFR's current actuarial consultant, Gabriel, Roeder, Smith & Company (GRS). The role of the audit actuary is to verify the work of TFFR's current actuary, provide insights that will improve actuarial understanding, give ideas that will improve the actuarial process, and help the Board meet its fiduciary obligation.

The actuarial audit report for the 2005 valuation was presented to the TFFR Board in September 2006. In general, the audit report contains good news for fund members and other interested parties. The audit report states that the actuarial valuation done by TFFR's current actuary fairly represents the actuarial position and funding requirements of the retirement system. The audit report also includes a number of suggestions that are being considered by the TFFR Board. Most of the suggestions relate to enhancing the actuarial valuation process and reports, and would not have a material impact on the valuation results.

Legislation

From page one

- **Creates new tier of reduced member benefits for new TFFR members (and returning refunded members) employed on or after July 1, 2007.**

Tier 1 members would include all current active, inactive, or retired members who have TFFR service credit on July 1, 2007. Tier 1 members who do not refund their service credit would maintain the current TFFR benefit structure.

Tier 2 members would include all new members and returning refunded members who are employed on or after July 1, 2007. Tier 2 members would have the following benefit changes:

- Rule of 90, instead of Rule of 85.
- 5-year vesting, instead of 3-year.
 - Early (reduced) retirement eligibility would be age 55 and 5 years of service (instead

of age 55 and 3 years).

- Normal (unreduced) retirement eligibility would be age 65 and 5 years of service (instead of age 65 and 3 years).
- Final average salary would be computed as a 5-year average, rather than as a 3-year average.

- **Removes automatic refund requirement and reenacts various other provisions to comply with IRS qualification requirements.**

Other Proposal Affecting TFFR

House Bill No. 1078, submitted by the State Board for Career and Technical Education (CTE) would allow employees of CTE to transfer their retirement plan membership from TFFR to PERS.



Franz Appointed To Board

Governor Hoeven recently appointed Kim Franz to represent active teachers on the TFFR Board. Kim is a third grade teacher at Mary Stark Elementary School in Mandan. We appreciate her commitment to serve North Dakota educators as a TFFR Board trustee.

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